RJ INSIGHT

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INDUSTRIAL PRODUCTS & SERVICES

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Infrastructure & Construction

Implications of Deere's Fiscal Year End Results

Yesterday, Deere released it F1Q10 results. Year-over-year, the company achieved a 19% increase in income with 6% lower net sales and revenues. The bulk of the increase ($38.3 mln of the $39.3 mln increase) came from the company's financial services operations due to improving financial spreads. The equipment operations – which is of most interest to us—reported improvements due to lower raw material costs, improved price realization and favourable f/x and product mix. Lastly, the company provided an updated industry outlook and increased its guidance for 2010.

Taken together, we view the earnings announcement as positive, though on most fronts not much has changed in terms of implications for the companies in our universe, in our view. More specifically, while higher price realization, which helped improve results at Deere's equipment operations, has positive implications for all names in our equipment distribution universe, F1Q10 marked the second consecutive quarter we've seen this trend at play (see our Nov-26-09 INsight regarding Deere's F4Q09 release). Increasing dealer inventory levels was also another positive take-away from the quarter, though again, this was not the first time we've seen this positive data point (see our Jan-28-10 INsight on Caterpillar's results and implications).

In terms of industry outlook, Deere increased its global construction sales growth forecast to 21%, up modestly from 18%. While this figure is more aggressive than our forecasts (which can be explained at least in part by geographical differences and currency assumptions), it is consistent with our thesis that the construction markets are poised to rebound in 2010 as excess supply flushes through the system and dealers begin restocking inventories.

On the ag front, Deere's improved outlook is markedly more positive for the U.S. and Canada where sales are now forecasted to be in-line with 2009 (up from a 10% projected drop). The more optimistic outlook was driven by healthy cash receipts and commodity prices along with low interest rates, lending particular support to the sale of larger equipment. This bodes well for the ag equipment dealers in our universe (Cervus Corp. and Rocky Mountain Dealerships), whose sales are geared towards larger equipment given the large farm sizes in Western Canada. We have remained quite positive on both of these names due to their exposure to the relatively strong ag fundamentals mentioned above, their strong acquisition opportunities (see our latest Feb-16-09 INsight), and their market leading positions.

SECTOR SUMMARY

COMPANY / TICKER	CUR	PRICE	RETURN	RATING / TARGET
Cervus Equipment Corp.				**OUTPERFORM 2 =**
CVL-TSXV	C	$13.30	18%	$15.00 =
Finning International				**OUTPERFORM 2 =**
FTT-TSX	C	$17.78	15%	$20.00 =
Ritchie Bros.				**MARKET PERFORM 3 =**
RBA-NYSE	USD	$20.00	28%	$25.25 =
Rocky Mountain Dealerships				**OUTPERFORM 2 =**
RME-TSX	C	$9.13	39%	$12.50 =
Toromont Industries				**OUTPERFORM 2 =**
TIH-TSX	C	$30.20	16%	$34.50 =
Wajax Income Fund				**MARKET PERFORM 3 =**
WJX.UN-TSX	C	$23.48	6%	$23.00 =

Target return includes dividend/distribution
All figures in C$, unless otherwise noted.
Sources: Raymond James Ltd.,ThomsonOne, CapIQ

Exhibit 1: Equipment Dealer Peer Group Valuation

Company Name	Ticker	Fx	FY END	Market Price	Shares O/S (mln)	Market Cap (mln)	Net Debt (mln)	Ent. Value (mln)	P / E			EV / EBITDA			Net Debt/ Cap (%)	Price /Book (x)	Div. Yield (%)
									2008A	2009E	2010E	2008A	2009E	2010E			
EQUIPMENT DISTRIBUTORS																	
ASHTEAD GROUP PLC	AHT.GB	BPN	APR	£0.83	503.3	£417	£847	£1,264	7.0	n.m.	n.m.	3.5	4.9	5.0	67.0	0.8	3.5
CERVUS EQUIPMENT CORP.	CVL.CA	CAD	DEC	$13.30	14.4	$191	$31	$222	11.6	14.2	10.7	9.4	9.7	7.7	13.8	1.9	5.4
FINNING INTERNATIONAL INC	FTT.CA	CAD	DEC	$17.78	171.1	$3,043	$1,130	$4,173	11.9	22.1	16.1	5.8	7.9	7.2	27.1	2.0	2.5
H&E EQUIPMENT SERVICES INC	HEES.US	USD	DEC	$10.77	34.9	$376	$348	$724	6.6	n.m.	n.m.	2.9	5.7	5.8	48.1	1.3	--
RITCHIE BROS AUCTIONEERS INC	RBA.US	USD	DEC	$20.00	106.2	$2,124	($138)	$1,986	24.7	23.6	21.0	14.0	12.6	11.4	n.m.	4.4	2.0
ROCKY MOUNTAIN DEALERSHIPS	RME.CA	CAD	DEC	$9.13	14.5	$132	$11	$144	11.5	8.6	7.3	5.5	4.8	3.6	7.9	1.6	2.0
RUSH ENTERPRISES INC	RUSHA.US	USD	DEC	$6.78	26.4	$179	$272	$451	8.1	n.m.	14.4	6.1	16.5	8.2	60.3	0.4	--
SPEEDY HIRE PLC	SDY.GB	BPN	MAR	£0.26	517.2	£133	£135	£268	1.9	n.m.	n.m.	2.1	3.8	3.7	50.3	0.3	0.3
STRONGO INCOME FUND	SQP-U.CA	CAD	DEC	$3.65	10.5	$38	$129	$167	n.m.	7.2	4.6	n.m.	16.7	12.8	77.1	n.m.	--
TITAN MACHINERY INC	TITN.US	USD	JAN	$12.54	17.8	$223	$213	$435	11.6	13.2	12.1	11.6	11.6	11.2	48.8	n.m.	--
TOROMONT INDS LTD	TIH.CA	CAD	DEC	$30.20	64.8	$1,956	($49)	$1,907	14.7	16.2	15.5	7.2	8.0	5.9	n.m.	2.3	2.0
UNITED RENTALS INC	URI.US	USD	DEC	$7.16	60.2	$431	$2,906	$3,337	2.7	n.m.	n.m.	3.2	5.2	4.8	87.1	n.m.	--
WAJAX INCOME FUND	WJX-U.CA	CAD	DEC	$23.48	16.8	$394	$101	$495	7.7	19.5	11.4	5.4	10.9	7.3	20.4	2.0	7.7
									10.0	**15.6**	**12.6**	**6.4**	**9.1**	**7.3**			
ORIGINAL EQUIPMENT MANUFACTURERS																	
AGCO CORP	AGCO.US	USD	DEC	$34.84	92.5	$3,221	$431	$3,652	8.5	24.6	21.1	5.1	10.1	9.3	11.8	1.6	--
CATERPILLAR INCORPORATED	CAT.US	USD	DEC	$57.50	622.7	$35,807	$29,392	$65,199	26.4	21.3	14.3	n.m.	15.1	11.5	45.1	n.m.	3.1
CNH GLOBAL NV	CNH.US	USD	DEC	$25.66	237.4	$6,092	$6,974	$13,066	n.m.	n.m.	15.1	n.m.	11.1	8.7	53.4	0.9	1.7
DEERE & COMPANY	DE.US	USD	OCT	$56.48	422.6	$23,870	$20,917	$44,787	20.1	22.0	15.9	n.m.	n.m.	13.8	46.7	5.0	2.1
HARSCO CORP.	HSC.US	USD	DEC	$30.13	80.3	$2,420	$891	$3,311	16.9	14.5	12.2	4.2	5.5	5.2	26.9	1.8	2.6
MANITOWOC CO. INC	MTW.US	USD	DEC	$12.57	130.6	$1,642	$2,064	$3,706	4.1	n.m.	n.m.	5.5	9.4	10.2	55.7	1.3	0.7
OSHKOSH CORPORATION	OSK.US	USD	SEP	$39.35	89.5	$3,521	$998	$4,519	n.m.	9.0	13.2	13.9	4.9	6.5	22.1	5.7	--
TEREX CP	TEX.US	USD	DEC	$20.17	108.1	$2,180	$970	$3,150	3.8	n.m.	n.m.	3.3	n.m.	n.m.	30.8	0.9	--
									13.3	**18.3**	**15.3**	**6.4**	**9.3**	**9.3**			
AUCTIONEERS																	
EBAY INC	EBAY.US	USD	DEC	$22.68	1,293.0	$29,324	($4,944)	$24,381	14.4	13.6	12.4	8.0	7.4	6.8	n.m.	2.1	--
COPART INC	CPRT.US	USD	JULY	$35.44	84.2	$2,982	($218)	$2,764	21.1	19.7	17.1	10.3	9.6	9.0	n.m.	3.2	--
SOTHEBY'S	BID.US	USD	DEC	$24.18	66.9	$1,618	$395	$2,013	n.m.	n.m.	n.m.	n.m.	n.m.	15.4	19.6	2.9	0.8
									17.7	**16.7**	**14.8**	**9.2**	**8.5**	**10.4**			

Notes:
1) Estimates for CVL, FTT, RBA, RME TIH and WJX.UN are from Raymond James; all other estimates are consensus from Thomson One.
2) P/E calculation for CVL and WJX.UN are tax-adjusted.

Source: Raymond James Ltd., Thomson One

Risks

Equipment Distributors (CVL, FTT, RBA, RME, TIH and WJX.UN)—For many of these suppliers, business is dependent on continued market acceptance of the products in their portfolio. As such, any inability to maintain quality of products at competitive prices may materially erode the company's market share and materially impact operations and future prospects. Long-term maintenance and repair service contracts are common with large equipment purchases and typically establish a fixed price over the contract term. An inability to fulfill these contracts successfully and at agreed-upon margins may also have an adverse impact on the company's overall operations. Other risks arise from the reliance on agreements with several equipment manufacturers (e.g., Caterpillar in the case of Finning and Toromont), distributors and/or suppliers

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